APPENDIX B

Policy and Procedures for Reporting Construction-Work-In-Progress and Capitalization of NPOESS Satellites, Their Component Sensors, and Related Assets

POLICY

The purpose of this document is to prescribe the policies and procedures governing the procedures for documenting, reporting, and monitoring the National Polar-orbiting Operational Environmental Satellite System (NPOESS) Construction Work-in-Progress (CWIP) costs for Capital Assets.

NPOESS is a tri-agency program that includes the National Oceanic and Atmospheric Administration (NOAA), the National Aeronautic and Space Administration (NASA), and the Department of Defense (DoD)/United States Air Force (USAF). The DoD is the contracting agent for this program, and the USAF has acquisition and contracting responsibility. This document will prescribe the policies and procedures as they apply to the NOAA portion of the CWIP capitalized costs.

BACKGROUND OF NPOESS

The NPOESS Program began in FY 1994. As with other major NOAA procurement programs, a lengthy development/pre-production period is anticipated with the first satellite expected to be available for operational use in CY 2008. Since NPOESS is being designed to meet the needs of both the civilian and military communities, NOAA and the DoD/USAF will fund it equally. NASA is the third partner in the NPOESS program. NASA does not contribute to the program funding, but contributes personnel and technical expertise to NPOESS at the agency's own cost.

The NPOESS program consists of the following segments: a space segment, including the spacecraft and instrumentation, a launch services segment; a ground segment, including the facilities, systems, and equipment required to acquire data and command the spacecraft; and the Integrated Data Processing Segment (IDPS) that delivers the Environmental Data Records (EDR) to the military and civilian users in this country and abroad.

There are risk reduction activities termed "Internal Governmental Studies (IGS)" and other studies being conducted in parallel as either advanced research and development technology studies or leveraged payload experiments and calibration and validation efforts. The IGS studies are considered part of the ultimate NPOESS capitalized cost. Studies that are not selected for further research or development will be expensed.

The NPOESS tasks are largely non-recurring. Several years will be required to complete the project, and funding of non-recurring costs will be spread over the life cycle of the project.

OVERVIEW OF CWIP AND THE PROCESS

CWIP issues and costs are governed by the policy for general Property, Plant and Equipment (PP&E). CWIP is a temporary holding account used to track costs during the design and construction of PP&E that will eventually be capitalized and depreciated in NOAA's financial statements. The costs remain in the CWIP account until the PP&E has been accepted by NPOESS. When each satellite becomes operational, the CWIP costs will be transferred to the appropriate PP&E asset account and will be depreciated over the useful life of the asset. NPOESS will follow the NOAA CWIP procedures found in the NOAA CWIP Policy and Procedures, July 2003 edition unless divergent procedures are otherwise identified in this document.

NPOESS CWIP Program Responsibilities

NPOESS will ensure that there is a Program Manager (PM) with responsibility at the program level for maintaining quantitative and financial control over the project under construction. The NPOESS Program Control Office (PCO) will have the responsibility for preparation of obligating documents for the CWIP project as well as responsibility for financial and budgetary activities involving NPOESS. The Program Control Office will ensure that the following activities are completed in a timely manner.

1. Recording the capitalized costs;

2. Ensuring that the CWIP costs are reclassified as PP&E upon acceptance

3. Meeting all reconciliation and reporting requirements and periodically preparing a final year end reconciliation.

When completed, all documents will contain a signature and date block for the person who prepared the document and a signature and date block for the NESDIS Chief Financial Officer/Management and/or Budget Officer.

Appropriation and Project Codes

NPOESS will have one overall appropriation code. CWIP project codes are unique seven digit alphanumeric codes assigned as needed. This project code contains the designator "F" (to designate that this is a CWIP appropriation code) in the assigned position.

The costs of NPOESS-provided systems in support of WindSat and the 13-meter Fairbanks antennae project in Alaska will be capitalized as a separate CWIP project. All other NPOESS costs will be accumulated in the basic NPOESS satellite account, and then capitalized at the time of acceptance for each satellite.

RESPONSIBILITIES

The Integrated Program Office (IPO) of the National Environmental Satellite, Data, and Information Service (NESDIS) is responsible for determining the proper costs to be recorded for CWIP and the capitalization of NPOESS satellites and their component sensors. The IPO is also responsible for providing the Acquisition, Grants, and Facilities Service (AGFS) Logistics Services Branch (LSB) with the amount of CWIP to be capitalized with appropriate documentation to support this amount.

Proper CWIP documentation must be maintained to support audit requirements. The IPO will provide reconciling statements for the CA500D Report. The IPO will provide the Finance Office and the Personal Property and Transportation Branch (PPTB) with the related systems acquisition financial documentation to support the financial statement preparation after the satellite is launched and accepted by NOAA.

The PPTB is responsible for recording of capitalized costs as received from the IPO. The Finance Office is responsible for adjusting the accounting records to ensure the CWIP, the capitalized PP&E and the depreciation components of the financial statements agree with the subsidiary records.

PROGRAM ADMINISTRATION

1. Within the IPO, there are three projects:

    a. Windsat;

    b. 13-meter Fairbanks antennae project in Alaska; and

    c. NPOESS.

2. The NOAA total costs will be determined by the joint NOAA/DoD/NASA MOU.

1. Collection of CWIP costs will begin starting in FY 1995. Cost adjustments for costs accumulated from FY 1995 through FY 2001 will be entered into the NOAA accounting system in FY 2002. Costs prior to Fiscal Year 2002 will be accumulated as follows:

    A. A determination of the IPO appropriation from DOC for each year is completed;

    B. A spreadsheet identifying NPOESS use of appropriated funds is created;

    C. In order to determine prior year accrued costs, the total funds remaining in undelivered orders for each prior year is ascertained. This number is then subtracted from the net amount determined to be “NPOESS Project” CWIP obligations. The

remainder are total costs for each Prior Year to be cost adjusted to a CWIP task number; and

D. The change in prior year undelivered orders from year to year will determine the additional prior year cost allocated to NPOESS.

2. NOAA IPO labor costs plus the costs of support contractors who are paid with NOAA funds will be considered CWIP. The entire NPOESS program, implemented by the IPO, exists only to build and launch satellites; therefore, these costs qualify as CWIP. When direct labor is charged to NPOESS, CAMS will apply a leave and benefit surcharge and NOAA indirect costs to the NPOESS project. This will ensure the full cost of the labor is associated with the project.

3. Concept studies will be expensed until a determination is made as to whether or not the study leads to further development within the NPOESS program. Studies that become part of NPOESS will be capitalized. Exception: costs for Phase A sensor contracts that did not lead to further development within the NPOESS program. Such Phase A contract costs will not be included in the CWIP totals.

4. Software developed by the NPOESS Program is an integral part of the Interface Data Processor Segment (IDPS) and is not considered "standalone software". The IDPS system processes data transferred from the Command, Control, and Communications (C3) Segment, into Environmental Data Records (EDR's).

5. The IPO will estimate the total projected costs to be capitalized for the satellites (using the Current President's Budget) and pro-rate them (less the costs that have already been transferred to the NOAA property system) over the number of satellites in the program as of the beginning of the fiscal year. This will provide the capitalization amount for the satellites that will become operational during the year. The projected costs to be capitalized may differ from year to year. When a difference does occur, prior year capitalizations will not be adjusted.

6. As each of the NPOESS satellites are accepted, the costs of the spacecraft, instruments, launch services, and the program costs will be moved from the CWIP account to the PP&E account so the satellite(s) can be entered into the property system and depreciation recorded.

9. For depreciation purposes, the expected lifetime of the satellites will be seven years.

10. When all costs are accounted for, the last satellite in the series will be capitalized in the same manner as the first. The capitalized amount of the last satellite will be adjusted. This procedure is necessary because the cost of the last satellite will not be known until all cost documentation is received, which may be after the last satellite is accepted.

11. For those procurements where more than one vendor is initially selected, (e.g., the PDRR contracts and the Phase A sensor contracts), the only funding that will be capitalized will be that amount associated with the successful vendor. The other costs will be expensed.

PROCEDURES

1. Cost Procedures

For FY 2001 and Prior:

- Consistent with the policy guidance above, IPO will prepare a documented schedule of NPOESS costs subject to capitalization that have accumulated from the start of the program through the end of FY 2001.

- These CWIP costs, will be cost adjusted to NPOESS CWIP project numbers and forwarded through channels to the Finance Office in FY 2002.

For FY 2002 and Following:

- NPOESS costs will be collected under a CWIP project number.

2. Capitalization

Using the latest President's Budget and the CWIP amount computed above, the IPO will determine the total projected program cost subject to capitalization. As each spacecraft or ground support is deployed, the cost will be moved from the CWIP account to the PP&E account. The amount to be costed will be updated on an annual basis based on Actual expenditures and allotments to specific accounts.

As each satellite is accepted, the IPO will provide the capitalization costs (including the acceptance date and the estimated useful life of the system) so that the satellite can be entered into the property system and the depreciation recorded.

In this instance, since a "cost sharing" agreement exists between NOAA and other agencies for the joint acquisition of satellites and sensors, the joint NOAA/DoD/NASA MOU will be the guideline to determine the total cost of the asset.

Construction-Work-in-Progress (CWIP)

1. Monthly procedures

   A. Update the CWIP spreadsheets for cost and documentation tracking;
   B. Reconcile CWIP CA500D against the CWIP file spreadsheets and documentation and submit cost adjustments, if needed; and

C. Make sure CWIP files and documentation are maintained.

2. Quarterly procedure: Advise the NOAA Budget Office of changes in information on the CWIP project list.

3. Year end procedure: At the end of each year, the IPO will prepare a schedule of total cumulative costs incurred during the year and reconcile this schedule to the CWIP Task Status List, and advise the NOAA Office of Finance and Administration of any adjustments that may be required.

4. Project completion procedure:

A. Accrue all UDO's into the CWIP account.

B. Transfer CWIP costs from the CWIP account to the specific asset account;

C. Include asset in the Personal Property inventory;

D. Establish asset lifetime for depreciation;

E. Establish depreciation task number.

5. Documentation Requirements

A listing of the source documentation that will be kept by the PCO may be found in the NOAA CWIP Policy and Procedures, July 2003 edition. In addition:

A. The principle source of documentation for all hardware costs will be the Corresponding acquisition contract maintained by the DoD contracting staff;

B. The principle source of documentation for all personnel and administrative costs will be the appropriate NOAA financial report; and

C. The IPO will maintain spreadsheets summarizing major NOAA CWIP cost categories by Fiscal Year as well as overall cost categories by Fiscal Year with references to the source documentation.